

RESPONSE TO THE INTRASTATE COMMERCIAL AIR SERVICE COMMITTEE through Senate Concurrent Resolution 125 during the 2020 Legislative Session

INTRODUCTION

Kudos to the State of Idaho for having the foresight to form the Intrastate Commercial Air Service Committee at this juncture in the U.S. airline industry's evolution timeline. Whereas many states are working hard to deal with their respective economies, the State of Idaho (Idaho) , through this Request for Proposal (RFP), clearly appreciates the importance of commercial air transportation in facilitating the fiscal health of Idaho in what will ultimately be a post-COVID environment.

In fact, this is one of the very first RFP's to be offered for bid in 2020. There are other states that recognize that the world of commercial air transportation in the U.S. will undergo structural change, but few are proactively acting to understand the issues in front of them. In this RFP, our approach will likely be different than other firms responding to Idaho's request. What is most attractive to us, is the fact that the committee is comprised of a diverse group of leaders in commercial air service, travel and the business community. It will take the expertise of each of them, and likely more, to put together a sustainable approach.

Not only is this a time where history will not hold most of the answers about predicting a post-COVID air service market for Idaho, it is also a period of change for us. My name is William Swelbar and my partner is Albert Zhong. Together we have more than 60 years of experience studying issues like the one you have presented. We are not bidding this proposal as a member of any firm as we were recently furloughed. The firm we were employed by over the past three years decided to disband its air service practice.

Any google search of William Swelbar will return many news articles, economic studies and even U.S. Congressional testimony on the economics of air transport. Albert Zhong has been William Swelbar's lead analyst for more than two decades and therefore involved in most everything produced over the years. Swelbar and Zhong are in the midst of deciding which path to take going forward as the two already have choices as to new platforms to work from.

THE TEAM

William Swelbar is a Research Engineer in the Massachusetts Institute of Technology's International Center for Air Transportation, where he is affiliated with the Global Airline Industry Program and Airline Industry Research Consortium. He also currently serves as a member of the Board of Directors of Hawaiian (Airlines) Holdings, Inc. In December of 2016, Swelbar was appointed to U.S. Department of Transportation's (DOT) Working Group on Improving Air Service to Small Communities.

Swelbar has spent 40 years in the consulting world with a focus on network strategies, regulatory issues governing air transport, communication strategy and support, airline labor cost restructuring, and air service development on behalf of airports and communities.

Of interest to this RFP, Swelbar was active in working with the State of Wyoming as they drove legislation to establish their own air service program. Certainly, there are similarities to Idaho and Wyoming. Idaho has Boise and Wyoming has Jackson. Each of those markets comprise the lion's share of each state's passenger numbers. However, Wyoming also is confronted with rural communities that need access to the air transportation system, just like Idaho. But Idaho also is home to several markets with significant leisure attributes and that will prove important in a post-COVID world. (More on this in discussing the scope of the agreement).

Swelbar has a passion for small community air service and the issues confronting this sub-sector of the industry. In response to those issues, he formed the Regional Air Service Alliance to find solutions to the structural headwinds facing the sector in March 2014.

Albert Zhong has more than 20 years of experience analyzing networks large and small; markets large and small; and airline operating systems stretching from Asia through the U.S. to Europe. He is the author, along with William Swelbar, of critical recent studies titled: The U.S. Air Service Beige Deck (analyzing the performance and benchmarking over 300 airports in the U.S.); The U.S. Commercial Air Service Year in Review; and Landed in a Pandemic, Departing in a Recession (the most detailed month to month analysis of the pandemic's effect on the air service market in the U.S.).

OUR THINKING ABOUT THIS PROJECT

Whereas six months ago, we would have looked at past proposals submitted to various clients and borrowed parts of the responses to answer the questions posed in this RFP. Today, that is not an option as the world requires all of us to rethink our approaches to air service issues going forward.

In the RFP, Idaho correctly asks for the right types of analysis to be done in a pre-COVID environment. The analysis sought in the RFP that should be the focus is less about historical airline service and more about economic and demographic trends in each of Idaho's commercial air service markets. It is our view that Idaho will continue to see its underlying economic and demographic makeup improve largely as a result of the emerging trend toward working from home or working remotely as well as being home to wide open spaces.

One of the drivers of demand going forward will likely be a population made up of workers looking to live in less densely populated metro areas. For our submission, this data point cannot be overstated. A new term is to consider air service demand to be "dynamic demand". Should a remade population find Idaho an ideal alternative to densely populated metro areas, their historical demand patterns will likely not change. However, their influence on air service

demand for a new and re-constituted Idaho-based population will change. For this reason, historical demand numbers will need a complete re-think. Also, air travelers in this COVID environment are seeking destinations with wide open spaces.

Below are the asks in the RFP. The primary basis of our approach would be in the items bolded and italicized. But in order to make this analysis work, it will require significant input from the individual communities and the State of Idaho economic development and related agencies to best forecast demand.

The fact that the committee assembled by the State of Idaho is comprised of a diverse group of leaders in commercial air service, travel and the business community will likely prove to be prescient in finding a new message to win commercial air service. Whereas attention will be given to historical air service, it will be a third order input into the forecast and analysis.

Analysis of Idaho's Current Air Service, and Historical Intrastate Commercial Air Service

- Analyze air service history in each community, with a focus on intrastate service. Passenger Demand Assessment
- ***Evaluate each significant population center in the state for travel demand to Boise, and beyond.***
 - o Deliverable: Passenger Demand Study for each community

Market Potential, Suggested Intrastate Routes and Airlines

- ***Develop a forecast of potential demand by utilizing historical data from Idaho communities, historical and current benchmarks throughout the country, and demographic characteristics.***
- Where appropriate, identify potential operators based on demand for each community, and as part of an overall consolidated portfolio. Identify which airports/markets can support economically viable service to Boise.

Air Service Comparisons

- Identify peer markets that have seen success with intrastate air service, or short-haul trips from smaller markets

The tasks not highlighted above will comprise a small portion of the time anticipated in performing the analysis and the associated deliverables. The highlighted tasks will need to be incubated as no existing models are available to forecast demand in a COVID or post-COVID environment.

In this environment, there will likely be very few peer markets with intrastate air service or even short-haul trips from smaller markets. A trend is already emerging, beginning with

American Airlines regional services, to discontinue service to markets in close proximity to a larger market that is also served. In addition, a trend toward removing the smallest equipment from an airline's fleet is also underway further clouding the appetite for small community air service by the U.S. airlines offering commercial service.

An area that will likely get attention in Washington, but not in the immediate term, will be small community air service after the dust settles from COVID and the nation's economy begins to function on more cylinders than it is today. If the trends occurring today are a lens into where small community air service is headed, then Congressional action will likely become needed if even popular. Idaho should position itself to be a leader in Washington on the issue and in our view should be part of the work performed in this RFP.

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Air Service Development Best Practices for Idaho

- Assess federal Small Community Air Service Development Fund applicability to supplement state and local investment. Provide a funding proposal for each community, based on overall local vs state impact for each airport analyzed.

It goes without saying that the additional services requested by this RFP are important after air service has commenced. Moreover, we are well-equipped to provide such services. But in the alternative, we offer that other tasks might be considered in the short-term. We appreciate the intentions of Idaho in forming the committee and applaud Idaho in linking air service and economic development in the effort. There has never been a more critical time to prepare for a future without commercial air service than now.

Further, never in the 42 years since the U.S. airline industry was deregulated will attracting small community/rural air service will be a more difficult task than today. Not only will it take a village, it will take a state. Moreover, it will take a state with all stakeholders in its economic development ecosystem to come together in order to make it happen.

In our 60+ years in the business of providing air service advice to communities of all sizes have we over-promised and under-delivered. And we are not going to begin here. We are certainly analytically equipped to provide you with historic data that has little relevance to this unknown marketplace of today. What is important are the facts we know. We know that the airlines will all likely be smaller than they were in 2019. Where airlines are smaller, hubs/focus cities those airlines used to connect passengers to their ultimate destination will also be smaller. With fewer points to connect to, there will be fewer small community markets on tomorrow's air service grid than today.

ALTERNATIVE THINKING

The State of Idaho has funded the committee with a very attractive sum of \$50,000. Simply, delivering a demand analysis for each of nine commercial air service airports would require significantly more time than the budget would permit. Especially if Idaho wants to present itself in a new and different light to the airlines offering commensurate small community air service in tomorrow's world on the other side of the curve.

We think that air carrier analysis is vital to be sure. However, during a time where fiscal prudence is likely being practiced vigilantly, we see this work being part of a bigger economic development picture. A picture that is likely changing as the economic and demographic makeup of Idaho is changing. In a period of fiscal prudence, there is likely not a one size fits all solution to the state's wants for all nine commercial air service airports. In a period of fiscal prudence, investing where the greatest ROI can be earned should also be considered all the while banking increased tax revenues to invest in the next project that offers the best return.

The State of Indiana is arguably the envy of most states today. It established an Economic Development Corporation to invest in air service in order to accomplish what the FAA prohibits airports to do today. An additional attribute of their program is the Governor makes the decisions where to invest whether it would be on an international service between Indianapolis and Paris or a domestic service between Ft. Wayne and Newark.

CONCLUDING THOUGHTS

We likely have now made every case why you should not hire William Swelbar and Albert Zhong. Our hourly rates are likely not the cheapest among the answers you will receive to this proposal: William Swelbar, (\$310/hr.) and Albert Zhong (\$195/hr.). We are air service development experts. We are not wanting to sell you something that likely does not apply in this new world in which we live in. We could do the analysis you request, excluding all the rigor we would want to put into the demand forecasts, for a not-to-exceed price of \$35,000.

We would prefer to see Idaho enter this process with eyes wide open, all stakeholders in the economic development ecosystem on board and near-term expectations in check. Developing a program is right. Developing a program for the sake of a program is not.

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